

Proposed Methodology for Identifying and Capturing Savings

Outcome Desired

Finance Committee and subsequent ITIB approval of the proposed methodology for identifying and capturing savings.

Overview

Based on the legislation regarding the Virginia Technology Infrastructure Fund¹, the CIO is to identify savings through a methodology approved by the IT Investment Board and the Secretary of Finance. In general, VITA identifies savings based on a comparison of costs before and after implementation of a new initiative. Initiatives resulting in savings may originate from negotiating lower vendor contracts for goods and services, from consolidation of services or from sharing of resources. VITA is committed to achieving savings of a sufficient amount to offset the overhead fee charged to agencies under the proposed direct bill approach, with any additional savings being withdrawn from the agencies and applied to the Infrastructure Fund.

Identifying Savings Estimates

Identifying savings begins with the preparation of a business case. VITA's business case policy requires that proposed new services or major changes to existing services must be initiated by preparing a business case. VITA's business case procedure specifies the required content of the business case document and cost analysis worksheet. One of the requirements for preparing a business case is the potential to achieve savings as a result of proceeding with an initiative.

For purposes of identifying savings, the most pertinent information provided in the business case is a description of the current environment and alternatives for providing the proposed service. The business case proponent is required to include the actual costs incurred to support the current environment and cost projections related to each alternative presented. Cost information is provided in worksheet format and includes costs for hardware, software, facilities, personnel and other expenses. Once the descriptive and cost information provided by the proponent is determined to be comprehensive, VITA Financial Management Services finalizes the total cost of providing the proposed service under each alternative presented. The total cost of each alternative is compared with the current cost to determine the potential savings.

Savings Capture

As savings are identified for initiatives that are implemented, VITA will track the cumulative savings amount. In FY05, all savings passed along to agencies via reduced charges will be retained by the agencies until such time as the cumulative savings amount equals VITA's total costs of integration. Passing the savings back to agencies and allowing them to retain the savings is intended to offset the administrative fee. Once the

cumulative savings equals the total annual administrative fee, additional savings will be captured by the Department of Planning and Budget by removing funds (excluding federal) from agency budgets and transferring those funds to the Infrastructure Fund. The APA will certify all savings according to the legislation prior to any savings being removed from agency budgets.

Issue

Agencies may not benefit equally in all cases where savings are achieved. For example, agencies currently pay varying amounts for anti-virus software. VITA may negotiate a lower rate that results in statewide savings; however, the savings realized by each agency may vary based on the amount previously paid for the product.

VITA's overall goal is to offset the total amount of the integration cost from a Commonwealth standpoint and, if practical, seek to do so on an agency by agency basis.

Next Steps

Once approved by the Finance Committee and the Board, the CIO will forward this savings methodology to the Secretary of Finance for approval.

¹ § 2.2-2023. Virginia Technology Infrastructure Fund created; contributions.

A. The Virginia Technology Infrastructure Fund (the Fund) is created in the state treasury. The Fund is to be used to fund major information technology projects or to pay private partners as authorized in subsection B of § [2.2-2007](#).

B. The Fund shall consist of: (i) the transfer of general and nongeneral fund appropriations from state agencies which represent savings that accrue from reductions in the cost of information technology and communication services, (ii) the transfer of general and nongeneral fund appropriations from state agencies which represent savings from the implementation of information technology enterprise projects, (iii) funds identified pursuant to subsection B of § [2.2-2007](#), (iv) such general and nongeneral fund fees or surcharges as may be assessed to agencies for enterprise technology projects, (v) gifts, grants, or donations from public or private sources, and (vi) such other funds as may be appropriated by the General Assembly. Savings shall be as identified by the CIO through a methodology approved by the Board and the Secretary of Finance. The Auditor of Public Accounts shall certify the amount of any savings identified by the CIO. For public institutions of higher education, however, savings shall consist only of that portion of total savings that represent general funds. The State Comptroller is authorized to transfer cash consistent with appropriation transfers. Appropriated funds from federal sources are exempted from transfer. Except for funds to pay private partners as authorized in subsection B of § [2.2-2007](#), moneys in the Fund shall only be expended as provided by the appropriation act.

Interest earned on the Fund shall be credited to the Fund. The Fund shall be permanent and nonreverting. Any unexpended balance in the Fund at the end of the biennium shall not be transferred to the general fund of the state treasury.